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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000669

SIPDIS

STATE FOR NEA/ARPI
EB/IFD/OIA ABRYAN
EB/ESC/TFS BSTEPHENSON
S/CT TKUSHNER
OFAC DIRECTOR RWERNER
TREASURY FOR U/S TAYLOR, S. RENANDER

E.O. 12958: DECL: 02/15/2015

TAGS: [ECON](#) [E Aid](#) [EFIN](#) [KU](#) [IZ](#) [GZ](#) [WE](#)

SUBJECT: MINISTER OF FINANCE AND TREASURY U/S DISCUSS AID
TO PALESTINIANS, IRAQI DEBT, TERROR FINANCE, BMENA AND U.S.
DEFICIT

REF: SECSTATE 26150

Classified By: Ambassador Richard LeBaron for reason 1.4 (d)

1. (C) Summary: Kuwaiti Finance Minister Mahmoud Al-Nouri hosted a working dinner 9 February for Department of Treasury Undersecretary John Taylor at which the two discussed aid to the Palestinians, Iraqi debt and reconstruction, future plans for BMENA and G8 involvement in economic and political reform, terror finance interdiction, the U.S. deficit and other general economic issues. The Finance Minister outlined specific steps that the Palestinians needed to take in order for Kuwait to continue its financial support, described his understanding of Iraq's debt to Kuwait, and shared his views on some of the BMENA and G8 economic and political reform initiatives. U/S Taylor explained the need to help the Palestinians respond to budget shortfalls, asked for a renewed focus on terror finance legislation and enforcement, and explained what steps the USG was taking to reign in the deficit. Also attending the dinner were Ambassador Richard LeBaron, Ministry of Finance Undersecretary Mustafa Al-Shamali, Kuwait Investment Authority Managing Director Bader Al-Saad, Treasury Department Advisor Sonja Renander and Econ Officer (notetaker). End Summary.

Aid to PA

2. (C) U/S Taylor said that the USG was trying to support the Palestinians as much as possible and described Finance Minister Fayyad as a responsible overseer of Palestinian funds (reftel). He then explained that the Palestinian Authority will likely be \$500 million short in the current fiscal year, and that the USG had pledged \$350 million. In response to U/S Taylor's request that Kuwait do all it can to support the newly elected Palestinian government and the Palestinian people, Al-Nouri outlined three specific conditions that he said Kuwait was waiting for in order to provide continued support. He said that Kuwait has always been a generous supporter of the Palestinians and would continue to be so, but needed Abbas to form a government and needed him to come to Kuwait and talk to the GOK. He complained about people in the Palestinian government that are still "attacking Kuwait or against Kuwait" and he also said that Kuwait must be assured that any money given in aid will be put to good use and not touched by any corrupt people.

Iraq Debt Reduction

3. (C) U/S Taylor asked for Kuwait's support on debt reduction for Iraq and Al-Nouri said that Kuwait was willing to match the Paris Club agreement, but needed to work out a specific formula directly with the Iraqis. He said that the Iraqi Central Bank Governor and Finance Minister (once appointed) would likely come to Kuwait to discuss the specifics of the debt reduction plan. Al-Nouri explained that a large portion of Kuwait's loans to Iraq had been made interest-free and that this needed to be taken into account when determining "comparable treatment" to the Paris Club decision. The 80% reduction agreed to by other countries means that they are mostly forgiving the interest and not the principal, whereas Iraq's debt to Kuwait is mostly principal, Al-Nouri said.

Regional Initiatives

4. (C) After the U/S and the Minister discussed recent Broader Middle East and North Africa (BMENA) and G8 initiatives for economic and political reform throughout the region, Al-Nouri reiterated his disagreement with some of the initiatives being developed. First, he said, the \$100 million IFC facility is "too small." Second, Al-Nouri said that the network of funds made available could be perceived as being "controlled by the U.S.," rather than being at the direction of those in the region. U/S Taylor asked that

Kuwait remain actively engaged in the dialogue and encourage more money to be added to the IFC facility when the time was right. On the second point, U/S Taylor explained that the U.S. has no desire to control the funds and simply wants to ensure that the money is used appropriately. Al-Nouri also said there was already good coordination among the various Arab regional financial institutions and he feared giving the Arab League any entree in to these mechanisms through BMENA channels.

Terrorism in Kuwait & Terror Finance -----

15. (C) The group discussed the recent shootouts between extremists and police in Kuwait, and U/S Taylor urged the Finance Minister to continue enacting and enforcing proper legislation to crack down on terror financing. Al-Nouri said that he and others were not surprised by the recent shootouts and were "expecting it for the past six months." "We're in the neighborhood of Saudi Arabia and Iraq," he added, "so it would be unusual for something not to happen." He said that the GOK was ready to deal with the problem and that the public was overwhelmingly against the terrorists. He explained that the Central Bank has a special committee on terror financing, chaired by the Central Bank Governor, and that Kuwait was also participating in GCC-wide efforts to crack down on terror financing. When asked about the free flow of currency across borders, Al-Nouri said that the Cabinet had issued a proclamation to control cash flows and that the Customs Agency was in charge of enforcing it. (Note: Implementation rules are still being worked out.) Al-Nouri then repeated an opinion on terror finance interdiction that he had earlier shared with the Ambassador, that the challenge was not in the big money transfers, but in controlling the small amounts that were needed to buy guns, grenades or other small weapons.

U.S. Deficit -----

16. (U) Al-Nouri asked about the U.S. deficit and U.S. dollar policy, and U/S Taylor explained that the U.S. supports a strong dollar policy and that the President's proposed budget provides for fiscal tightening to cut down the deficit. U/S Taylor further explained the difficulties in bringing down the deficit in light of a surge in imports from China and China's monetary policy, but said that the U.S. continues to work diligently on these issues.

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